

**FERNDALE HOUSING COMMISSION**

Financial Statements

December 31, 2012

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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**FERNDALE HOUSING COMMISSION**  
Management Discussion and Analysis  
December 31, 2012

This discussion and analysis of the Ferndale Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

**Entity-Wide Statements**

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

**Fund Statements**

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

**Entity-Wide Financial Highlights**

The Commission was awarded and received the following Federal Assistance:

|                                   | <u>Year 2012</u> | <u>Year 2011</u> |
|-----------------------------------|------------------|------------------|
| Operating Subsidies               | \$ 542,863       | \$ 533,765       |
| Capital Projects Funds            | 321,404          | 70,237           |
| Section 8 Housing Choice Vouchers | 3,008,033        | 5,249,979        |

Comparison of the current year to the past and discussion of significant changes as follows:

|  | <u>Year 2012</u>           | <u>Year 2011</u>           | <u>Net<br/>Change</u> |
|--|----------------------------|----------------------------|-----------------------|
| Cash & cash equivalents                | \$ 2,137,058               | \$ 3,209,200               | (1072,142)            |
| Accounts Receivable                    | 3,876                      | 4,936                      | (1,060)               |
| Investments                            | 94,754                     | 0                          | 94,754                |
| Prepaid Expenses                       | 9,873                      | 23,393                     | (13,520)              |
| Fixed Assets, prior to<br>Depreciation | 11,211,994                 | 10,977,065                 | 234,929               |
| Accumulated Depreciation               | <u>(6,613,151)</u>         | <u>(6,236,099)</u>         | 377,052               |
| <b><u>Total Assets</u></b>             | <b>\$ <u>6,844,404</u></b> | <b>\$ <u>7,978,495</u></b> |                       |

Management Discussion and Analysis, continued

|                             | <u>Year 2012</u>         | <u>Year 2011</u>         | <u>Net<br/>Change</u>     |
|-----------------------------|--------------------------|--------------------------|---------------------------|
| Accounts Payable            | \$ 23,613                | \$ 27,833                | \$ (4,220)                |
| Accounts Payable-Other Gov  | 17,788                   | 15,184                   | 2,604                     |
| Accrued Liabilities         | 156,924                  | 176,971                  | (20,047)                  |
| Security Deposits           | 41,513                   | 37,992                   | 3,521                     |
| Unearned Revenue            | <u>1,351</u>             | <u>2,360</u>             | <u>(1,009)</u>            |
| <b>Total Liabilities</b>    | <b>\$ <u>241,189</u></b> | <b>\$ <u>260,340</u></b> | <b>\$ <u>(19,151)</u></b> |
| <br>Net Position            | <br>\$ 6,603,215         | <br>\$ 7,718,155         | <br>\$ (1,114,940)        |
|                             | <u>Year 2012</u>         | <u>Year 2011</u>         | <u>Net<br/>Change</u>     |
| Revenues:                   |                          |                          |                           |
| Tenant Revenues             | \$ 367,512               | \$ 369,727               | \$ (2,215)                |
| HUD Grants                  | 3,637,370                | 5,853,981                | (2,216,611)               |
| Other Income                | 28,915                   | 11,027                   | 17,888                    |
| Expenses:                   |                          |                          |                           |
| Administrative              | 537,557                  | 565,268                  | (37,711)                  |
| Tenant Services             | 1,064                    | 1,300                    | (236)                     |
| Utilities                   | 189,634                  | 206,997                  | (17,363)                  |
| Maintenance & Operations    | 432,226                  | 455,215                  | (22,989)                  |
| Insurance Expense           | 37,796                   | 43,378                   | (5,582)                   |
| General Expenses            | 62,046                   | 33,386                   | 28,660                    |
| Depreciation Expense        | 377,052                  | 414,822                  | (37,770)                  |
| Housing Assistance Payments | 3,749,867                | 2,581,460                | 1,168,407                 |

The Commission's cash position decreased during the year, accounts receivable decreased slightly, investments increased, our prepaid expenses decreased; our fixed assets before depreciation increased, accumulated depreciation increased, total liabilities decreased, and Net Position decreased. Tenant rents decreased approximately 1/2 %, HUD grants decreased and other income increased.

Administrative expenses decreased, tenant services were unchanged, all other expense line items decreased.

Our cash position decreased as a result of cuts in HUD funding and recapturing of our reserves; as a result, we used \$ 1,072,142 of cash to fund our operations. Our net loss before depreciation was \$ 976,393.

Management Discussion and Analysis, continued

Net assets before depreciation increased by the amount of our Capital Fund hard cost drawn, \$ 234,929. Depreciation is a function of ratable write off of depreciable capital assets; current year write off decreased.

Fixed assets increased \$ 234,929, which will be analyzed later in this discussion. Depreciation expense is the systematic write off of assets over the expected life of the assets; total depreciation expense for the year was \$ 377,052.

Account payable decreased \$ 4,220; accounts payable represent expenses incurred in the current year, but unpaid until after year end. Accounts payable are timing differences and do not represent any significant situation concerning management; if a bill is not presented in a timely manner; it gets paid in the subsequent month.

Accrued liabilities decreased as a result of a decrease in the Accrued Compensated Absences. Total Compensated Absences decreased \$ 13,324; all other liability accounts had insignificant changes within expected ranges.

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, Capital grants authorized and obligated during the year, and Housing Assistance Payments under the Section 8 Housing Choice Vouchers programs. During the year, we acquired 220 additional units of Section 8 Housing Choice Vouchers from the Royal Oak Housing Commission; we acquired the funding and existing client file. It is unknown at this time the amount of reserves we will receive as a result of the transfer.

The most significant change in expenses occurred in Administrative, Utilities, Maintenance & Operations, General Expenses, and Housing Assistance Payments.

Administrative cost decreased \$ 37,711 as a result of a decrease in employee benefits; State Act 152 demanded employee contributions to health care- therefore, employees are contributing a percentage of the cost toward health care- the result was a decrease in employee benefits.

Utilities decreased; the previous year was unusually mild and usage was down; in addition, costs saving devices are reducing our normal usage as well- therefore we are experiencing a decrease in overall cost.

Maintenance and Operations decreased \$ 22,989; the majority of the savings occurred in the employee benefit area for the same reason as stated above under Administrative Expenses.

General expenses increased \$ 28,660; the increase is attributed in part to an increase in compensated absences in the amount of \$ 18,070, and an increase in tenant bad debt \$ 15,185. In addition to the aforementioned increases, there was a decrease in severance expense of \$ 6,907.

Housing Assistance Payments increased \$ 1,168,407 as a result of the increased 220 units acquired from the Royal Oak Housing Commission.

Management Discussion and Analysis, continued

The Commission provided the following housing for low to moderately low income families:

|                                   | <u>Year 2012</u> | <u>Year 2011</u> |
|-----------------------------------|------------------|------------------|
| Low Rent Public Housing           | 167              | 167              |
| Section 8 Housing Choice Vouchers | 915              | 695              |

**General Fund Budgetary Highlights**

The Commission approved an annual budget on January 11, 2012 for the budget year ending December 31, 2012; we had no occasion to amend the budget.

The significant differences between our budget and actual results are as follows:

|   | <u>Budget</u> | <u>Actual</u> | <u>Difference</u> |
|---|---------------|---------------|-------------------|
| Administrative Expense-Legal                      | \$ 29,983     | \$ 13,095     | \$ (16,888)       |
| Ordinary Maintenance-Contracts                    | 127,800       | 141,365       | 13,565            |
| Operating Income (Loss),<br>prior to Depreciation | (736,312)     | (741,463)     | 5,151             |

The legal cost estimate was based on the prior year's estimated cost, increased for inflation; the actual cost was less than the prior year.

Contract cost included expected maintenance cost for software and equipment, pest control, garbage pickup, etc. The actual cost came in approximately 10% below our original estimates.

## Management Discussion and Analysis, continued

### Entity Wide Capital Assets

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Generally buildings and improvements are written off over 40 years; furniture and equipment three to seven years.

The following represents the changes in fixed assets for the year:

|                                    | <u>Beg of Yr</u>    | <u>Additions</u>   | <u>Deletions</u>  | <u>End of Yr</u>    |
|------------------------------------|---------------------|--------------------|-------------------|---------------------|
| Land                               | \$ 823,793          | \$                 | \$                | \$ 823,793          |
| Buildings                          | 5,684,153           |                    |                   | 5,684,153           |
| Furniture &<br>Equipment-Dwellings | 38,212              |                    |                   | 38,212              |
| Furniture &<br>Equipment-Admin     | 280,039             |                    |                   | 280,039             |
| Construction in Progress           | 122,541             |                    | 107,773           | 14,768              |
| Infrastructure                     | 145,505             |                    |                   | 145,505             |
| Leasehold Improvements             | <u>3,882,822</u>    | <u>342,702</u>     |                   | <u>4,225,524</u>    |
|                                    | \$10,977,065        | \$ 342,702         | \$ 107,773        | \$11,211,994        |
| Less Accumulated<br>Depreciation   | <u>6,236,099</u>    | <u>377,052</u>     |                   | <u>6,613,151</u>    |
|                                    | <u>\$ 4,740,966</u> | <u>\$ (34,350)</u> | <u>\$ 107,773</u> | <u>\$ 4,598,843</u> |

The increases included an updated filing cabinet System, \$ 56,445, foundation repairs, \$ 24,000, replace entry doors, \$ 23,600, appliance replacements, \$ 25,800, and other repair items- gutters, seal parking lot, caulking, lobby and community light fixtures, etc.

### Commission's Position

Although we anticipate current funding levels for operations and capital improvements will remain consistent with past years, some uncertainty exists. The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs; the record Federal deficit has caused Congress to not only cut funding, but to recapture Commission reserves. Well managed and frugal agencies are now being punished by having the surplus reserves taken by the Federal Government to help pay for the waste and abuse being exposed at the Federal level daily.

However, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

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415 Withington  
Ferndale, Michigan 48220

***John C. DiPiero, P.C.***

Certified Public Accountant

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Board of Commissioners  
Ferndale Housing Commission  
415 Withington  
Ferndale, Michigan 48220

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the business-type activities of the Ferndale Housing Commission, Ferndale Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibilities for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ferndale Housing Commission as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-1 to i-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### **Report on Supplemental information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commissions' financial statements as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Further, the financial data schedules shown on pages 10-13 are presented for purposes of additional analysis as required by *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, and are not required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the above described supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

**Report Issued in Accordance with Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated June 12, 2013 on my consideration of the Commissions' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of a *Government auditing standards* and should be considered in assessing the results of my audit.

Certified Public Accountant  
Hemlock, Michigan  
June 12, 2013

**FERNDALE HOUSING COMMISSION**  
Statement of Net Position  
December 31, 2012

**ASSETS**

**C-3089**

|                              |                  |              |
|------------------------------|------------------|--------------|
| Cash                         | \$ 417,308       |              |
| Cash- Restricted             | <u>1,719,750</u> | \$ 2,137,058 |
| Accounts Receivable- Tenants |                  | 3,876        |
| Investments                  |                  | 94,754       |
| Prepaid Expenses             |                  | 9,873        |

Capital Assets:

|                                      |                    |                  |
|--------------------------------------|--------------------|------------------|
| Land                                 | 823,793            |                  |
| Buildings                            | 5,684,153          |                  |
| Furniture, Equipment- Dwelling       | 38,212             |                  |
| Furniture, Equipment- Administrative | 280,039            |                  |
| Leasehold Improvements               | 4,225,524          |                  |
| Construction in Progress             | 14,768             |                  |
| Infrastructure                       | 145,505            |                  |
| Accumulated Depreciation             | <u>(6,613,151)</u> |                  |
| Total Capital Assets                 |                    | <u>4,598,843</u> |

**TOTAL ASSETS**

\$ 6,844,404

**DEFERRED OUTFLOWS OF RESOURCES**

|                   |             |
|-------------------|-------------|
| Deferred Outflows | \$ <u>0</u> |
|-------------------|-------------|

**FERNDALE HOUSING COMMISSION**  
Statement of Net Position  
December 31, 2012

**LIABILITIES**

**C-3089**

|                                     |           |
|-------------------------------------|-----------|
| Accounts Payable                    | \$ 23,613 |
| Accrued Wages and Payroll Taxes     | 28,269    |
| Accrued Compensated Absences        | 69,661    |
| Tenants Security Deposit            | 41,513    |
| Accounts Payable- Other Governments | 17,788    |
| Unearned Revenue                    | 1,351     |

Long Term Liabilities:

|                              |               |
|------------------------------|---------------|
| Accrued Compensated Absences | <u>58,994</u> |
|------------------------------|---------------|

**TOTAL LIABILITIES**

\$ 241,189

**DEFERRED INFLOWS OF RESOURCES**

|                  |   |
|------------------|---|
| Deferred Inflows | 0 |
|------------------|---|

**NET POSITION**

|                                  |                |                  |
|----------------------------------|----------------|------------------|
| Net Investment in Capital Assets | \$ 4,598,843   |                  |
| Restricted for:                  |                |                  |
| Housing Assistance Payments      | 1,719,750      |                  |
| Unrestricted                     | <u>284,622</u> | <u>6,603,215</u> |

**TOTAL NET POSITION**

\$ 6,844,404

The Accompanying Footnotes are an Integral Part of the Financial Statements

**FERNDALE HOUSING COMMISSION**

Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the year ended December 31, 2012

**OPERATING REVENUE**

|                                |    |              |           |
|--------------------------------|----|--------------|-----------|
| Tenant Rental Revenue          | \$ | 364,322      |           |
| Tenant Revenue-Other           |    | 3,190        |           |
| HUD Grants                     |    | 3,637,370    |           |
| Interest Income                |    | 169          |           |
| Fraud Recovery                 |    | 19,174       |           |
| Other Income                   |    | <u>9,572</u> |           |
| <u>Total Operating Revenue</u> | \$ |              | 4,033,797 |

**OPERATING EXPENSES**

|                                   |    |                |                  |
|-----------------------------------|----|----------------|------------------|
| Administrative                    | \$ | 537,557        |                  |
| Tenant Services                   |    | 1,064          |                  |
| Utility Expenses                  |    | 189,634        |                  |
| Ordinary Maintenance              |    | 432,226        |                  |
| Insurance Expense                 |    | 37,796         |                  |
| General Expenses                  |    | 62,046         |                  |
| Housing Assistance Payments       |    | 3,747,547      |                  |
| Housing Assistance-Portability-In |    | 2,320          |                  |
| Depreciation Expenses             |    | <u>377,052</u> |                  |
| <u>Total Operating Expenses</u>   |    |                | <u>5,387,242</u> |
| <u>Operating Income (Loss)</u>    | \$ |                | (1,353,445)      |

**CAPITAL CONTRIBUTIONS**

|                                |    |  |                |
|--------------------------------|----|--|----------------|
|                                |    |  | <u>234,930</u> |
| <u>Changes in Net Position</u> | \$ |  | (1,118,515)    |

|  |    |              |                  |
|--|----|--------------|------------------|
| Total Net Position- Beginning          | \$ | 7,718,155    |                  |
| Prior Period Adjustment-               |    |              |                  |
| Adjust prior years accrued liabilities |    | <u>3,575</u> | <u>7,721,730</u> |
| <br>Total Net Position- Ending         | \$ |              | <u>6,603,215</u> |

The Accompanying Notes are an Integral part of the Financial Statements

**FERNDALE HOUSING COMMISSION**  
Combined Statement of Cash Flows  
For the Year Ended December 31, 2012

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

|  |                |
|--|----------------|
| Receipts from Customers                          | \$ 368,572     |
| Payments to Suppliers                            | (4,641,337)    |
| Payments to Employees                            | (465,663)      |
| HUD Grants                                       | 3,637,370      |
| Other Receipts (Payments)                        | <u>28,915</u>  |
| Net Cash Provided (Used) by Operating Activities | \$ (1,072,143) |

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

|  |                     |
|--|---------------------|
| Contributed Capital  | \$ 234,930          |
| Purchases of Capital Assets                                      | <u>(234,929)</u>    |
| Net Cash provided from (used) in Related<br>Financing Activities | <u>1</u>            |
| Net Increase (Decrease) in Cash<br>and Cash Equivalents          | \$ (1,072,142)      |
| Balance- Beginning of Year                                       | <u>3,209,200</u>    |
| Balance- End of Year   | \$ <u>2,137,058</u> |

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

|   |                       |
|---|-----------------------|
| Net Operating Profit or (Loss)  | \$ (1,353,445)        |
| Adjustments to Reconcile Operating Income to Net<br>Cash Provided (Used) by Operating Activities: |                       |
| Depreciation  | 377,052               |
| Changes in Assets (Increase) Decrease:  |                       |
| Receivables (Gross)   | 1,060                 |
| Investments   | (94,754)              |
| Prepaid Expenses  | 13,520                |
| Changes in Liabilities Increase (Decrease):   |                       |
| Accounts Payable  | (1,694)               |
| Accrued Payroll and Payroll Taxes   | (6,723)               |
| Accounts Payable-Other Governments  | 1,380                 |
| Accrued Compensated Absences  | (13,324)              |
| Unearned Revenue  | 8,306                 |
| Security Deposits   | <u>(3,521)</u>        |
| Net Cash Provided by Operating Activities   | \$ <u>(1,072,143)</u> |

The Accompanying Notes are an Integral part of the Financial Statements

**FERNDALE HOUSING COMMISSION**  
Notes to Financial Statements  
December 31, 2012

**NOTE 1: Summary of Significant Accounting Policies**

**Reporting Entity-**

Ferndale Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the city of Ferndale. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

|               |                    |           |
|---------------|--------------------|-----------|
| MI 96 1, 2, 4 | Low rent program   | 167 units |
| MI 28 V       | Section 8 Vouchers | 975 units |

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability is the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, deferred outflow and inflows of resources, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

### **Basis of Accounting-**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principles (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they don't conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### **Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.



Notes to Financial Statements- continued

**Assets, Liabilities, and Deferred Resources-**

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting these criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

|                            |            |
|----------------------------|------------|
| Buildings and Improvements | 40 years   |
| Equipment                  | 3-10 years |

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Deferred Resources

*Deferred Outflows of Resources* are defined as a consumption of net assets by the Commission that is applicable to a future reporting period; *Deferred Inflows of Resources* are defined as an acquisition of net assets by the Commission that is applicable to a future reporting period.

Notes to Financial Statements- continued

Subsequent events

The Commission has evaluated events and transactions for potential recognition of disclosure through June 12, 2013, which is the same date the financial statements were available to be issued; any events that require disclosure are included later in this report.

Other Post Employment Benefits (OPEB)

The Commission does not provide any OPEB to retired employees as defined by the American Institute of Certified Public Accounts, (AICPA).

**Note 2: Cash & Investments**

The composition of cash and investments are as follows:

Cash:

|                                |                |
|--------------------------------|----------------|
| General Fund Checking Accounts | \$ 1,968,681   |
| Petty Cash                     | 100            |
| Savings Accounts               | <u>168,277</u> |

|                          |                     |
|--------------------------|---------------------|
| Total Cash & Investments | <u>\$ 2,137,058</u> |
|--------------------------|---------------------|

Investments:

|                         |                  |
|-------------------------|------------------|
| Certificates of Deposit | <u>\$ 94,754</u> |
|-------------------------|------------------|

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

|                  | Categories          |           |           | Carrying Amount     | Market Value        |
|------------------|---------------------|-----------|-----------|---------------------|---------------------|
|                  | 1                   | 2         | 3         |                     |                     |
| Cash:            |                     |           |           |                     |                     |
| Checking A/C's   | \$ 1,968,681        | \$        | \$        | \$ 1,968,681        | \$ 1,968,681        |
| Savings Accounts | 168,277             |           |           | 168,277             | 168,277             |
| Petty Cash       | <u>100</u>          |           |           | <u>100</u>          | <u>100</u>          |
| Total Cash       | <u>\$ 2,137,058</u> | <u>\$</u> | <u>\$</u> | <u>\$ 2,137,058</u> | <u>\$ 2,137,058</u> |

Investments:

|                |                  |           |           |                  |                  |
|----------------|------------------|-----------|-----------|------------------|------------------|
| Treasury Bills | <u>\$ 94,754</u> | <u>\$</u> | <u>\$</u> | <u>\$ 94,754</u> | <u>\$ 94,754</u> |
|----------------|------------------|-----------|-----------|------------------|------------------|

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continued

**Note 3: Prepaid Expenses**

Prepaid expenses consist of the following:

|                   |          |
|-------------------|----------|
| Prepaid Insurance | \$ 9,023 |
|-------------------|----------|

**Note 4: Fixed Asset Analysis**

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Generally buildings and improvements are written off over 40 years; furniture and equipment three to seven years.

The following represents the changes in fixed assets for the year:

|                                    | <u>Beg of Yr</u>    | <u>Additions</u>   | <u>Deletions</u>  | <u>End of Yr</u>    |
|------------------------------------|---------------------|--------------------|-------------------|---------------------|
| Land                               | \$ 823,793          | \$                 | \$                | \$ 823,793          |
| Buildings                          | 5,684,153           |                    |                   | 5,684,153           |
| Furniture &<br>Equipment-Dwellings | 38,212              |                    |                   | 38,212              |
| Furniture &<br>Equipment-Admin     | 280,039             |                    |                   | 280,039             |
| Construction in Progress           | 122,541             |                    | 107,773           | 14,768              |
| Infrastructure                     | 145,505             |                    |                   | 145,505             |
| Leasehold Improvements             | <u>3,882,822</u>    | <u>342,702</u>     |                   | <u>4,225,524</u>    |
|                                    | \$10,977,065        | \$ 342,702         | \$ 107,773        | \$11,211,994        |
| Less Accumulated<br>Depreciation   | <u>6,236,099</u>    | <u>377,052</u>     |                   | <u>6,613,151</u>    |
|                                    | <u>\$ 4,740,966</u> | <u>\$ (34,350)</u> | <u>\$ 107,773</u> | <u>\$ 4,598,843</u> |

**Note 5: Long Term Liabilities**

As of Dec 31, 2012, the long term liabilities consist of Capital Compensated Absences.

|   |           |
|---|-----------|
| Accrued compensated absences -long term portion | \$ 58,994 |
|---|-----------|

The following is a summary of changes in long term liabilities for the year ended December 31, 2012:

|                              | <u>Balance</u>  |                  |                   | <u>Balance</u>  | <u>Estimated</u>  |
|------------------------------|-----------------|------------------|-------------------|-----------------|-------------------|
|                              | <u>01/01/12</u> | <u>Additions</u> | <u>Deductions</u> | <u>12/31/12</u> | <u>Amounts</u>    |
|                              |                 |                  |                   |                 | <u>Due within</u> |
|                              |                 |                  |                   |                 | <u>One Year</u>   |
| Accrued compensated absences | \$ 77,064       | \$               | \$ 18,070         | \$ 58,994       | \$ 69,661         |

Notes to Financial Statements- continued

**Note 6: Pension Plan**

The Ferndale Housing Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays a percentage of all eligible employees' wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years. Information concerning the pension fund is contained in a separate audit report.

**Note 7: Risk Management**

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

| <u>Types of Policies</u>   | <u>Coverage's</u> |
|--|-------------------|
| Property   | \$ 24,802,745     |
| General Liability  | 1,000,000         |
| Dishonesty Bond  | 1,000,000         |
| Worker's Compensation and other<br>riders: minimum coverage's<br>required by the State of Michigan |                   |

**Note 8: Combining Financial Data Schedules**

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

**Ferndale Housing Commission (MI096)**

**FERNDALE, MI**

**Entity Wide Balance Sheet Summary**

Sub  
miss Audited/A-133

Fiscal Year End: 12/31/2012

|   | Project Total | 14,871<br>Housing<br>Choice<br>Vouchers | Subtotal     | Total        |
|---|---------------|---|--------------|--------------|
| 111 Cash - Unrestricted                     | \$267,127     | \$108,714                               | \$375,841    | \$375,841    |
| 112 Cash - Restricted - Modernization and   |               |   |              |              |
| 113 Cash - Other Restricted                 |               | \$1,719,750                             | \$1,719,750  | \$1,719,750  |
| 114 Cash - Tenant Security Deposits         | \$41,467      |   | \$41,467     | \$41,467     |
| 115 Cash - Restricted for Payment of        |               |   |              |              |
| 100 Total Cash                              | \$308,594     | \$1,828,464                             | \$2,137,058  | \$2,137,058  |
| 121 Accounts Receivable - PHA Projects      |               |   |              |              |
| 122 Accounts Receivable - HUD Other         |               |   |              |              |
| 124 Accounts Receivable - Other             |               |   |              |              |
| 125 Accounts Receivable - Miscellaneous     |               |   |              |              |
| 126 Accounts Receivable - Tenants           | \$3,876       |   | \$3,876      | \$3,876      |
| 126.1 Allowance for Doubtful Accounts -     | \$0           |   | \$0          | \$0          |
| 126.2 Allowance for Doubtful Accounts -     | \$0           |   | \$0          | \$0          |
| 120 Total Receivables, Net of Allowances    | \$3,876       | \$0                                     | \$3,876      | \$3,876      |
| 131 Investments - Unrestricted              | \$94,754      |   | \$94,754     | \$94,754     |
| 132 Investments - Restricted                |               |   |              |              |
| 135 Investments - Restricted for Payment of |               |   |              |              |
| 142 Prepaid Expenses and Other Assets       | \$9,873       |   | \$9,873      | \$9,873      |
| 150 Total Current Assets                    | \$417,097     | \$1,828,464                             | \$2,245,561  | \$2,245,561  |
| 161 Land                                    | \$823,793     |   | \$823,793    | \$823,793    |
| 162 Buildings                               | \$5,684,153   |   | \$5,684,153  | \$5,684,153  |
| 163 Furniture, Equipment & Machinery -      | \$38,212      |   | \$38,212     | \$38,212     |
| 164 Furniture, Equipment & Machinery -      | \$280,039     |   | \$280,039    | \$280,039    |
| 165 Leasehold Improvements                  | \$4,225,524   |   | \$4,225,524  | \$4,225,524  |
| 166 Accumulated Depreciation                | -\$6,613,151  |   | -\$6,613,151 | -\$6,613,151 |
| 167 Construction in Progress                | \$14,768      |   | \$14,768     | \$14,768     |
| 168 Infrastructure                          | \$145,505     |   | \$145,505    | \$145,505    |
| 160 Total Capital Assets, Net of            | \$4,598,843   | \$0                                     | \$4,598,843  | \$4,598,843  |
| 180 Total Non-Current Assets                | \$4,598,843   | \$0                                     | \$4,598,843  | \$4,598,843  |
| 190 Total Assets                            | \$5,015,940   | \$1,828,464                             | \$6,844,404  | \$6,844,404  |

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| 311 Bank Overdraft                          |             |             |             |             |
| 312 Accounts Payable <= 90 Days             | \$23,613    |             | \$23,613    | \$23,613    |
| 313 Accounts Payable >90 Days Past Due      |             |             |             |             |
| 321 Accrued Wage/Payroll Taxes Payable      | \$28,269    |             | \$28,269    | \$28,269    |
| 322 Accrued Compensated Absences -          | \$69,661    |             | \$69,661    | \$69,661    |
| 324 Accrued Contingency Liability           |             |             |             |             |
| 325 Accrued Interest Payable                |             |             |             |             |
| 331 Accounts Payable - HUD PHA              |             |             |             |             |
| 332 Account Payable - PHA Projects          |             |             |             |             |
| 333 Accounts Payable - Other Government     | \$17,788    |             | \$17,788    | \$17,788    |
| 341 Tenant Security Deposits                | \$41,513    |             | \$41,513    | \$41,513    |
| 342 Deferred Revenues                       | \$1,351     |             | \$1,351     | \$1,351     |
| 343 Current Portion of Long-term Debt -     |             |             |             |             |
| 344 Current Portion of Long-term Debt -     |             |             |             |             |
| 345 Other Current Liabilities               |             |             |             |             |
| 346 Accrued Liabilities - Other             |             |             |             |             |
| 347 Inter Program - Due To                  |             |             |             |             |
| 348 Loan Liability - Current                |             |             |             |             |
| 310 Total Current Liabilities               | \$182,195   | \$0         | \$182,195   | \$182,195   |
| 351 Long-term Debt, Net of Current -        |             |             |             |             |
| 352 Long-term Debt, Net of Current -        |             |             |             |             |
| 353 Non-current Liabilities - Other         |             |             |             |             |
| 354 Accrued Compensated Absences - Non      | \$58,994    |             | \$58,994    | \$58,994    |
| 355 Loan Liability - Non Current            |             |             |             |             |
| 356 FASB 5 Liabilities                      |             |             |             |             |
| 357 Accrued Pension and OPEB Liabilities    |             |             |             |             |
| 350 Total Non-Current Liabilities           | \$58,994    | \$0         | \$58,994    | \$58,994    |
| 300 Total Liabilities                       | \$241,189   | \$0         | \$241,189   | \$241,189   |
| 508.1 Invested In Capital Assets, Net of    | \$4,598,843 |             | \$4,598,843 | \$4,598,843 |
| 511.1 Restricted Net Assets                 |             | \$1,719,750 | \$1,719,750 | \$1,719,750 |
| 512.1 Unrestricted Net Assets               | \$175,908   | \$108,714   | \$284,622   | \$284,622   |
| 513 Total Equity/Net Assets                 | \$4,774,751 | \$1,828,464 | \$6,603,215 | \$6,603,215 |
| 600 Total Liabilities and Equity/Net Assets | \$5,015,940 | \$1,828,464 | \$6,844,404 | \$6,844,404 |

# Ferndale Housing Commission (MI096)

## FERNDALE, MI

### Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 12/31/2012

|   | Project Total | 14.871 Housing<br>Choice<br>Vouchers | Subtotal    | Total       |
|---|---------------|--------------------------------------|-------------|-------------|
| 70300 Net Tenant Rental Revenue                 | \$364,322     |                                      | \$364,322   | \$364,322   |
| 70400 Tenant Revenue - Other                    | \$3,190       |                                      | \$3,190     | \$3,190     |
| 70500 Total Tenant Revenue                      | \$367,512     | \$0                                  | \$367,512   | \$367,512   |
| 70600 HUD PHA Operating Grants                  | \$629,337     | \$3,008,033                          | \$3,637,370 | \$3,637,370 |
| 70610 Capital Grants                            | \$234,930     |                                      | \$234,930   | \$234,930   |
| 70800 Other Government Grants                   |               |                                      |             |             |
| 71100 Investment Income - Unrestricted          | \$105         | \$64                                 | \$169       | \$169       |
| 71400 Fraud Recovery                            |               | \$19,174                             | \$19,174    | \$19,174    |
| 71500 Other Revenue                             | \$9,572       |                                      | \$9,572     | \$9,572     |
| 70000 Total Revenue                             | \$1,241,456   | \$3,027,271                          | \$4,268,727 | \$4,268,727 |
| 91100 Administrative Salaries                   | \$105,590     | \$213,099                            | \$318,689   | \$318,689   |
| 91200 Auditing Fees                             | \$5,800       |                                      | \$5,800     | \$5,800     |
| 91310 Book-keeping Fee                          | \$4,680       | \$7,320                              | \$12,000    | \$12,000    |
| 91500 Employee Benefit contributions -          | \$18,075      | \$51,199                             | \$69,274    | \$69,274    |
| 91600 Office Expenses                           | \$65,669      | \$48,185                             | \$113,854   | \$113,854   |
| 91700 Legal Expense                             | \$7,112       | \$5,983                              | \$13,095    | \$13,095    |
| 91800 Travel                                    | \$2,456       | \$2,389                              | \$4,845     | \$4,845     |
| 91000 Total Operating - Administrative          | \$209,382     | \$328,175                            | \$537,557   | \$537,557   |
| 92400 Tenant Services - Other                   | \$1,064       |                                      | \$1,064     | \$1,064     |
| 92500 Total Tenant Services                     | \$1,064       | \$0                                  | \$1,064     | \$1,064     |
| 93100 Water                                     | \$119,061     |                                      | \$119,061   | \$119,061   |
| 93200 Electricity                               | \$31,760      |                                      | \$31,760    | \$31,760    |
| 93300 Gas                                       | \$38,813      |                                      | \$38,813    | \$38,813    |
| 93000 Total Utilities                           | \$189,634     | \$0                                  | \$189,634   | \$189,634   |
| 94100 Ordinary Maintenance and Operations -     | \$146,974     |                                      | \$146,974   | \$146,974   |
| 94200 Ordinary Maintenance and Operations -     | \$25,549      |                                      | \$25,549    | \$25,549    |
| 94300 Ordinary Maintenance and Operations       | \$141,365     | \$49,710                             | \$191,075   | \$191,075   |
| 94500 Employee Benefit Contributions - Ordinary | \$68,628      |                                      | \$68,628    | \$68,628    |
| 94000 Total Maintenance                         | \$382,516     | \$49,710                             | \$432,226   | \$432,226   |

|   |             |              |              |              |
|---|-------------|--------------|--------------|--------------|
| 96110 Property Insurance                      | \$15,265    |              | \$15,265     | \$15,265     |
| 96120 Liability Insurance                     | \$11,000    |              | \$11,000     | \$11,000     |
| 96130 Workmen's Compensation                  | \$11,531    |              | \$11,531     | \$11,531     |
| 96100 Total insurance Premiums                | \$37,796    | \$0          | \$37,796     | \$37,796     |
|   |             |              |              |              |
| 96210 Compensated Absences                    | \$18,070    |              | \$18,070     | \$18,070     |
| 96300 Payments in Lieu of Taxes               | \$17,788    |              | \$17,788     | \$17,788     |
| 96400 Bad debt - Tenant Rents                 | \$26,188    |              | \$26,188     | \$26,188     |
| 96000 Total Other General Expenses            | \$62,046    | \$0          | \$62,046     | \$62,046     |
|   |             |              |              |              |
| 96900 Total Operating Expenses                | \$882,438   | \$377,885    | \$1,260,323  | \$1,260,323  |
|   |             |              |              |              |
| 97000 Excess of Operating Revenue over        | \$359,018   | \$2,649,386  | \$3,008,404  | \$3,008,404  |
|   |             |              |              |              |
| 97300 Housing Assistance Payments             |             | \$3,747,547  | \$3,747,547  | \$3,747,547  |
| 97350 HAP Portability-In                      |             | \$2,320      | \$2,320      | \$2,320      |
| 97400 Depreciation Expense                    | \$377,052   |              | \$377,052    | \$377,052    |
| 90000 Total Expenses                          | \$1,259,490 | \$4,127,752  | \$5,387,242  | \$5,387,242  |
|   |             |              |              |              |
| 10100 Total Other financing Sources (Uses)    | \$0         | \$0          | \$0          | \$0          |
|   |             |              |              |              |
| 10000 Excess (Deficiency) of Total Revenue    | -\$18,034   | -\$1,100,481 | -\$1,118,515 | -\$1,118,515 |
|   |             |              |              |              |
| 11020 Required Annual Debt Principal Payments | \$0         | \$0          | \$0          | \$0          |
| 11030 Beginning Equity                        | \$4,789,210 | \$2,928,945  | \$7,718,155  | \$7,718,155  |
| 11040 Prior Period Adjustments, Equity        | \$3,575     |              | \$3,575      | \$3,575      |
| 11170 Administrative Fee Equity               |             | \$108,714    | \$108,714    | \$108,714    |
| 11180 Housing Assistance Payments Equity      |             | \$1,719,750  | \$1,719,750  | \$1,719,750  |
| 11190 Unit Months Available                   | 1980        | 9036         | 11016        | 11016        |
| 11210 Number of Unit Months Leased            | 1944        | 8143         | 10087        | 10087        |
| 11270 Excess Cash                             | \$159,840   |              | \$159,840    | \$159,840    |
| 11610 Land Purchases                          | \$0         |              | \$0          | \$0          |
| 11620 Building Purchases                      | \$0         |              | \$0          | \$0          |
| 11630 Furniture & Equipment - Dwelling        | \$0         |              | \$0          | \$0          |
| 11640 Furniture & Equipment - Administrative  | \$0         |              | \$0          | \$0          |
| 11650 Leasehold Improvements Purchases        | \$234,930   |              | \$234,930    | \$234,930    |
| 11660 Infrastructure Purchases                | \$0         |              | \$0          | \$0          |
| 13510 CFFP Debt Service Payments              | \$0         |              | \$0          | \$0          |
| 13901 Replacement Housing Factor Funds        | \$0         |              | \$0          | \$0          |



**FERNDALE HOUSING COMMISSION**  
Schedule of Federal Financial Assistance  
For the Year Ended December 31, 2012

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Direct Programs:

|   | <u>Annual Program<br/>Expenditures</u> |
|---|--|
| * <u>CFDA 14.850 Public and Indian Housing</u>  |  |
| C-3029 Operating Subsidies                      | \$ <u>542,863</u>                      |
| * <u>CFDA 14.871 Housing Assistance Program</u> |  |
| C-3099V Section 8 Housing Choice Vouchers       | \$ <u>3,008,033</u>                    |
| * <u>CFDA 14.872 Capital Projects Program</u>   |  |
| C-3029 Capital Projects Funds                   | \$ <u>321,404</u>                      |
|   | \$ <u>3,872,300</u>                    |

\*Connotes Major Program Category

**Significant Account Policies**

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

**FERNDALÉ HOUSING COMMISSION**  
Status of Prior Audit Findings  
December 31, 2012

The prior audit of the Ferndale Housing Commission for the period ended December 31, 2011, did not contain any audit findings.

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
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e-mail: bowlczar@juno.com

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards**

Board of Commissioners  
Ferndale Housing Commission  
415 Withington  
Ferndale, Michigan 48220

**Independent Auditor's Report**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Ferndale Housing Commission, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Ferndale Housing Commission basic financial statements, and have issued my report thereon dated June 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Ferndale Housing Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ferndale Housing Commission's internal control. Accordingly, I do not express an opinion on the effectiveness of Ferndale Housing Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ferndale Housing Commission's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountant  
Hemlock, Michigan  
June 12, 2013

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
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e-mail: bowlczar@juno.com

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Commissioners  
Ferndale Housing Commission  
415 Withington  
Ferndale, Michigan 48220

**Independent Auditor's Report**

I have audited Ferndale Housing Commission's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ferndale Housing Commission's major federal programs for the year ended December 31, 2012. Ferndale Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of Ferndale Housing Commission's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ferndale Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Ferndale Housing Commission's compliance.

### **Opinion on Each Major Federal Program**

In my opinion, Ferndale Housing Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Other Matters**

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2.

Ferndale Housing Commission's response to the noncompliance findings identified in my audit are described in the accompanying schedule of findings and questioned costs, and Managements response. Ferndale Housing Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Ferndale Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Ferndale Housing Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Ferndale Housing Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

**Report on Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133**

I have audited the financial statements of Ferndale Housing Commission as of and for the year ended December 31, 2012, and have issued my report thereon dated June 12, 2013, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Certified Public Accountant  
Hemlock, Michigan  
June 12, 2013

**FERNDALE HOUSING COMMISSION**  
Schedule of Findings and Questioned Cost  
December 31, 2012

**Section I- Summary of Auditor's Results:**

**Financial Statements**

Type of auditor's report issued- **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified?                                 Yes                        X   No

Significant Deficiency (ies) identified  
that is not considered to be material  
weaknesses?                                 Yes                        X   None reported

Non Compliance material to financial  
statements noted                                 Yes                        X   No

**Federal Awards**

Type of auditor's report issued on compliance  
for major programs- **Qualified**

Internal control over major programs:

Material weakness(es) identified?                                 Yes                        X   No

Significant Deficiency (ies) identified  
that is not considered to be material  
weaknesses?                        X   Yes                                 None reported

Any audit findings disclosed that are required  
to be reported in accordance with Section  
510(a) of OMB Circular A-133?                                 Yes                        X   No

Auditee qualified as a low risk Auditee?                                 Yes                        X   No

Dollar limit used to determine type A & B programs-    \$ 300,000

Identification of Programs:

| <u>Name of Federal Program</u> | <u>Major<br/>Program</u> | <u>Questioned<br/>Costs</u> | <u>Audit Finding<br/>Number .</u> |
|--------------------------------|--------------------------|-----------------------------|-----------------------------------|
| Public and Indian Housing      | Yes                      | None                        | N/A                               |
| Housing Choice Voucher         | Yes                      | None                        | 12-1, 12-2                        |
| Capital Fund Program           | Yes                      | None                        | N/A                               |

**Section II-Financial Statement Findings**

None



### **Section III-Federal Award Findings and Questioned Costs**

#### **CFDA 14.871 Housing Assistance Program**

##### **Finding 12-1) Employee Defalcation-Housing Choice Voucher Program.**

###### **Criteria-**

The staff has direct contact with both landlords and tenants and is expected to conduct inspections, review documentation concerning eligibility, and conduct re-exams. Personal favors, kick-backs, and other unauthorized acts are prohibited by regulation and the management of the Commission.

###### **Condition-**

An employee was caught negotiating with both tenants and landlords to enter into unauthorized rental arrangements; the employee believed such acts were expected and took advantage of all parties. Management found that not only were the tenants and landlords not in compliance, but the employee also was a party to the incorrect arrangements.

###### **Questioned Cost-**

None

###### **Effect-**

The Commission is not in compliance with required HUD regulations concerning all the tenant files which this employee was involved. Miscalculated rents, missing forms, unauthorized contracts, and inappropriate unit inspections were found with all the files the employee was responsible for.

###### **Cause-**

The Commission was asked by HUD to consider taking over the Royal Oak Housing Commission Housing Choice Voucher program; the Commission agreed to the arrangement and hired the staff person from Royal Oak that was monitoring the files while at Royal Oak Housing Commission; within a very short period of time, the Director realized the employee was involved in illegal activities as mentioned above.

###### **Recommendation-**

The employee was given a chance to correct the problems and discontinue the inappropriate activity; however, she chose to continue her own methods. The employee was terminated. The ex-employee attempted to get unemployment but the Director challenged the claim and prevailed.

I recommend the Commission go through every Royal Oak Housing Choice Voucher file and recalculate the rent, re-inspect the unit, and require both the tenant and landlords to comply with the regulations regarding maintenance of the unit and continued occupancy.

I further suggest the Commission consider the nature of the illegal activity the employee was involved in; the employee should be debarred from working on other Federal programs as a result of her actions. HUD should advise the Commission if additional legal action should be pursued or if the information known to the Commission would be sufficient to place either a limited or permanent debarment on this individual.

#### **Management Reply-**

The Ferndale Housing Commission (FHC) assumed control over approximately 222 Housing Choice Vouchers (HCV) on July 1, 2012, transferred via an amendment to the FHC's Annual Contributions Contract from the Royal Oak Housing Commission (RHC). The transfer was made voluntarily by RHC in accordance with PIH Notice 2012-11. The agencies began working with the U.S. Department of HUD in late 2011 to determine the best course of action regarding the transfer. Final HUD approval was issued on July 12, 2012, with a retroactive effective date of July 1<sup>st</sup>.

Transfer negotiations required several conversations between FHC and RHC, as well as, the local HUD Office. FHC management learned that RHC had a 10-year veteran employee, which would risk employment termination. FHC management met with the employee and learned that she alone would be responsible for file transfer. According to her, the RHC HCV Participants were confused and concerned over the transfer process. FHC management offered the employee the opportunity to continue working with the RHC Participants as an employee of its agency. Her employment began on July 2, 2013 with FHC.

Shortly after her employment with FHC, it became apparent that numerous documents were missing from files. The employee assured the Executive Director, that all forms and documents had been brought over. The files lacked inspection forms, verification forms, HUD mandated forms and other pertinent information. Numerous files contained information that was not in the housing database, nor the HUD database. The only explanation given was that things were done differently in Royal Oak, even though program requirements remain the same regardless of the agency.

Several conversations were held to reiterate the importance of meeting program requirements and preserving tax dollars; she frequently implied that she had no knowledge of HCV regulations and felt it was a matter of policy. In August of 2012, a series of management efforts began to encourage the employee to meet the demands of her employment. She was required to have all communications approved by the FHC Executive Director, prior to sending them out. She was required to have all files reviewed prior to completion of any changes. In September of 2012, it was discovered that she was refusing to meet these demands and was told she would remain on probation another 90 days. In October of 2012, documents surfaced which demonstrated that she intentionally manipulated data in an effort to conceal erroneous calculations for the Participant's income and rent. Her employment was terminated immediately. Shortly after employment termination, additional documents surfaced which reflected that the employee was asking a landlord for personal favors in exchange for "steering" Participants to his vacant rental properties.

The employee filed for unemployment immediately. Several hearings have been held with the unemployment system. To date, the FHC has not been required to make unemployment payments. The unemployment administrative law judge stated that her behavior placed the FHC at "great jeopardy of federal investigation and possible liability". Recently, however, she has filed another appeal with the Appellate Court.

The FHC intends to vigorously challenge any claim asserted by the ex-employee.

**Finding 12-2) Tenant Accounting Discrepancies-Housing Choice Voucher Program.**

**Criteria-**

The following discrepancies were noted during a review of the Royal Oak tenant files:

Leases were incomplete, the wrong payment standards were used, utility allowances were miscalculated, income was not verified, numerous forms were missing, EIV reports were either not run, or not run timely.

The Commission is in the process of reviewing all the Royal Oak files and correcting the discrepancies.

**Condition-**

In addition to the above discrepancies, some tenants were told to pay amounts directly to the Landlords and then given a break on the rent per the 50058's; some landlords were given passes on failed units if they provided services for the employees personal property; some tenants were placed in units ahead of the waiting list if certain conditions were met per the employee.

**Questioned Cost-**

None

**Effect-**

The Commission is not in compliance with required HUD regulations concerning the original Royal Oak files; the missing data and timeliness of reporting could result in miscalculated rents and landlord payments.

**Cause-**

The Commission has hired the employee directly from the Royal Oak Housing Commission that was responsible for the files while at Royal Oak; the employee was found to be not in compliance with the regulations and the Ferndale Housing Commission policies. The employee was confronted and given an opportunity to correct the errors and perform properly, however, she chose continue to disobey direct orders and subsequently terminated.

**Recommendation-**

I recommend the Commission review all files for missing documents and errors, and implement a plan to monitor the files going forward.

**Management Reply-**

The Ferndale Housing Commission (FHC) acknowledges that numerous discrepancies were noted in the files received from the Royal Oak Housing Commission (RHC). As stated in our response to Finding 12-1, the FHC will complete a final review of all files and process certification for all files by September 30, 2013. The FHC cannot recreate files that did not exist at the time of transfer.